

Message Text

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ACTION NEA-12

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DEPT PASS TREASURY

E. O. 11652: GDS

TAGS: EAID, IN

SUBJ: INDO- SOVIET DEBT RESCHEDULING

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BEGIN SUMMARY: INDO- SOVIET DEBT RESCHEDULING DISCUSSIONS STILL IN EMBRYONIC STAGE. INDIANS HAVE IN THE PAST BEEN VERY UNENTHUSIASTIC ABOUT PURSUING THIS MATTER. EMBASSY SUGGESTS THAT WASHINGTON

EXPLORE WHAT DEBT RESCHEDULING MEANS IN THE INDO- SOVIET CONTEXT. A BETTER FIX ON THIS ASPECT IS IMPORTANT TO ANY EFFORT TO OBTAIN HIGH QUALITY RESOURCE TRANSFER TO INDIA SIMILAR TO THAT FANNISHED BY CONSORTIUM DEBT RESCHEDULING. END SUMMARY.

1. BEST INFORMATION WE HAVE AT PRESENT RE INDO- SOVIET DEBT RESCHEDULING IS:

A. ACCORDING TO IBRD' S NEW DELHI RESIDENT REPRESENTATIVE GILMARTIN, GOI WORKING LEVEL OFFICIALS (KAUL AND SHROFF) APPEAR TO APPRECIATE SERIOUSNESS U. S. ATTACHES TO SOVIET BLOC PARTICIPATION IN INDIAN DEBT RESCHEDULING. IBRD VICE PRESIDENT CARGILL REPORTEDLY

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IMPRESSED UPON INDIANS IMPORTANCE OF OBTAINING SOME SORT OF DEBT RELIEF FROM THE SOVIET BLOC DURING PRIVATE DISCUSSIONS WITH INDIANS IN

PARIS. GILMARTIN DOES NOT, HOWEVER, EXPECT CARGILL TO VISIT INDIA UNTIL AFTER THE BANK FUND MEETING IN NAIROBI AT END OF SEPTEMBER. WE HAVE TAKEN OPPORTUNITY TO IMPRESS GILMARTIN WITH THE SERIOUSNESS OF THE U. S. VIEW ON THIS MATTER, AND STATED THAT A REFERENCE TO SOVIET

BLOC CREDITORS SIMILAR TO THAT IN 1972 AGREED MINUTE WOULD BE INADEQUATE FOR 1973 MINUTE.

B. IT IS NOT YET CLEAR WHAT GOI POLICY- LEVEL OFFICIALS THINK ABOUT SEEKING DEBT RESCHEDULING FROM SOVIET BLOC. ACCORDING TO GILMARTIN, I. G. PATEL HAD BEEN SUCCESSFUL IN THE PAST IN DEFLECTING THE ISSUE SO THAT HIGH LEVEL INDIAN THINKING ON THIS MATTER IS UNINFORMED. HOWEVER, GOI APPEARS DECIDEDLY UNENTHUSIASTIC ABOUT PURSUING THIS MATTER WITH SOVIETS. IT IS VERY UNLIKELY THAT SOVIET DEBT RESCHEDULING FOR IFY 1973-74 HAS YET BEEN CONSIDERED AT POLICY LEVEL SINCE PRIME MINISTER HAS BEEN OUT OF THE COUNTRY AND PARLIAMENT IS IN RECESS.

C. INDIANS (SHROFF: MINISTRY OF FINANCE OFFICIAL IN CHARGE OF BANK FUND RELATIONS) APPEAR TO BELIEVE THAT ALL CONSORTIUM DONORS EXCEPT JAPAN AND THE U. S. WOULD BE PREPARED TO MOVE FORWARD ON DEBT RESCHEDULING WITHOUT FORMAL AGREEMENT ON A WRITTEN MINUTE, BUT

THAT U. S. AND JAPAN WOULD INSIST ON A WRITTEN MINUTE PRIOR TO SIGNATURE OF BILATERAL RESCHEDULING AGREEMENTS.

D. SOVIETS HERE ARE APPARENTLY UNAWARE OF ANY DISCUSSION WITH INDIANS ON DEBT RELIEF OR ANY INTENTION TO INITIATE THEM. THIS INFORMATION WAS PROVIDED BY SOVIET CHARGE DURING COURSE OF CONVERSATION ON OTHER SUBJECTS WITH POLITICAL COUNSELOR.

2. AS EMBASSY HAS DISCUSSED SUBJECT OF DEBT RELIEF IN NEW DELHI, WE HAVE BEEN STRUCK BY LACK OF CLARITY IN REGARD TO HOW SUCH RELIEF MIGHT BE OFFERED. WHILE THIS IS PRIMARILY FOR THE INDIANS AND SOVIETS TO DECIDE UPON, IT MIGHT BE WELL FOR USG TO EXAMINE ISSUE MORE SPECIFICALLY SO AS TO BE IN A POSITION TO JUDGE PROGRESS IN INDIAN- USSR DISCUSSIONS. WE HAVE THE FOLLOWING PRELIMINARY THOUGHTS ON MATTER WHICH MIGHT BE OF USE IN WASHINGTON:

A. AS IN THE CASE OF CONSORTIUM RESCHEDULING, WE BELIEVE THE AIM IN INDO- SOVIET RESCHEDULING SHOULD BE TO OBTAIN PROMPT AND HIGH- QUALITY RESOURCE TRANSFER TO INDIA. ALTHOUGH THE DEGREE OF UNTYING IMPLIED BY CONSORTIUM RESCHEDULING PRESUMABLY WILL BE CONFIDENTIAL

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HARDER TO ACHIEVE IN ANY INDO- SOVIET DEBT RESCHEDULING (AND TO THAT EXTENT WILL BE INFERIOR), IT IS STILL IMPORTANT THAT EFFECT OF ANY RE-

SCHEDULING BE A TRANSFER OF THE MAXIMUM AMOUNT OF QUALITY
RESOURCES
TO INDIA.

B. INDIA IS IN GROWING TRADE SURPLUS IN ITS BILATERAL ACCOUNTS
WITH THE USSR. SOME OF THIS SURPLUS FINANCES CURRENT MILITARY PRO-
GRAMS

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IFMDP CT AMORTIZES PAST DEBT TO THE SOVIET BLOC. MANY
INDIANS TELL US, HOWEVER, THAT A LARGE PART OF THE RUPEES RESULT
FROM

THE USSR'S INABILITY OR UNWILLINGNESS TO FURNISH INDIA WITH ENOUGH
GOODS OF A SORT INDIA WILL ACCEPT TO BALANCE THE ACCOUNT.

C. ONE OBVIOUS SOLUTION TO THIS PROBLEM WOULD BE FOR INDIA TO
REDUCE ITS EXPORTS TO THE SOVIET UNION SUFFICIENTLY TO BRING
ITS ACCOUNT INTO BALANCE (OR IN A RESCHEDULING CONTEXT TO RESULT IN A
SOVIET TRADE SURPLUS). HOWEVER, MANY INDIANS ALSO TELL US THAT
INDIAN EXPORTS TO THE SOVIET UNION CONSIST OF SPECIALIZED RESOURCES
FOR WHICH READILY ALTERNATIVE MARKETS DO NOT EXIST, AT LEAST AT THE
HIGHER PRICES THE SOVIETS ARE WILLING TO PAY. (THE FAVORABLE TERMS OF
TRADE IN THE RUPEE TRADE-- HIGHER THAN WORLD PRICES FOR MANY INDIAN
EXPORTS AND LOW PROCES FOR MANY INDIAN IMPORTS-- ALSO HAVE
SOMETHING
TO DO WITH THE INDIAN TRADE SURPLUS WITH THE SOVIET BLOC.

3. NONE OF THIS IS TO SAY THAT THE PRINCIPLE OF SOVIET
RESOURCE TRANSFER THROUGH DEBT RESCHEDULING IS NOT POSSIBLE
OR DESIRABLE. BEFORE WE CAN HOPE TO INTELLIGENTLY DISCUSS
THIS QUESTION WITH THE INDIANS, HOWEVER, WE MUST GET A
BETTER FIX ON HOW SOVIET DEBT RELIEF MIGHT BE PROVIDED.
ONE ADVANTAGE THAT MAY WELL ACCRUE FROM A DEBT RESCHEDULING
EXERCISE WITHIN THE RUPEE AREA IS THAT BADLY NEEDED LIGHT
MAY BE CAST ON THE MURKY TRADE AND PAYMENTS RELATIONS IN
THE RUPEE BLOC. CONSEQUENTLY, EXPOSURE OF UNECONOMIC
NATURE OF MANY OF THE ARRANGEMENTS COULD LEAD TO THEIR
AMELIORATION.
SCHNEIDER

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